

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1999, AND JUNE 30, 1998

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity

The Tennessee Housing Development Agency was created by an act of the legislature (Chapter 241, Public Acts, 1973). The act was approved by the Governor on May 14, 1973. The enabling legislation can be found in *Tennessee Code Annotated*, Section 13-23-101 *et seq.* The purpose of the agency is to improve housing and living conditions for lower- and moderate-income persons and families in Tennessee by making loans and mortgages to qualified sponsors, builders, developers, and purchasers of low- and moderate-income family dwellings.

Agency operations are directed by a 19-member board of directors. The board consists of five members who serve *ex officio* (the State Treasurer, the Comptroller of the Treasury, the Commissioner of the Department of Finance and Administration, the Secretary of State, and a staff assistant to the Governor), and 14 appointed members -- 12 appointed by the Governor and one each by the Speaker of the House and the Speaker of the Senate. The board includes representatives of the housing, real estate, home-building, and mortgage-lending industries; representatives of local government and nonprofit organizations; and citizens from the public at-large.

In order to accomplish its objectives, the agency is authorized to raise funds through the issuance of bonds and notes. Bonds and notes issued by the agency are not general obligations of the State of Tennessee or any of its political subdivisions, and neither the faith and credit nor the taxing power of the state or any political subdivision is pledged for payment of the principal or interest on such bonds or notes.

The Tennessee Housing Development Agency is a component unit of the State of Tennessee. Although the agency is a separate legal entity, the state appoints a majority of its governing body, approves its budget, and provides some financial support. The agency is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

b. Basis of Presentation

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The agency follows all applicable GASB pronouncements as well as applicable private-sector pronouncements issued on or before November 30, 1989. Certain accounting policies and procedures are stipulated in the agency's 1974, 1981, and 1985 bond resolutions and the Single Family Mortgage Notes trust indenture. The agency follows these procedures in establishing and maintaining the various funds and accounts for its programs. Revenues and expenses applicable to each fund and account are recorded therein.

c. Basis of Accounting and Measurement Focus

The accompanying financial statements have been prepared using the accrual basis of accounting and the flow of economic resources measurement focus. Under this basis, revenues are recorded when earned and expenses are recorded when liabilities are incurred.

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d. Depreciation

The agency records furniture and office equipment at cost and follows the straight-line method of depreciating the assets over their estimated useful lives, which are determined considering physical factors as well as obsolescence factors.

e. Bond Issuance Costs, Discounts, Refunding Costs, and Interest Accretion

1. Bond Issuance Costs: The agency amortizes bond issuance costs using the bonds outstanding method over the life of the related bond issue. Unamortized bond issuance costs are reported as deferred charges.
2. Bond Discount and Refunding Costs: The agency amortizes bond discount using the bonds outstanding method over the life of the related bond issue. Bond refunding costs are amortized using the straight-line method. The bonds outstanding method approximates the effective interest method of amortization. Bonds payable are reported net of the applicable unamortized bond discount and unamortized bond refunding costs.
3. Interest Accretion: The difference between the face amount of deep discount bonds and the public offering price is not treated as bond discount. Deep discount bonds are subject to redemption at prices which increase from the public offering price up to the face amount. The carrying amount of these bonds is adjusted monthly to reflect the increased liability, with a corresponding charge to interest expense.
4. Mortgage Discount: Discounts on 30-year mortgage loans purchased by the agency are amortized using the straight-line method over 17 years, the estimated average life of mortgages. The amount amortized is credited to interest income.

f. Cash and Cash Equivalents

In addition to demand deposits, petty cash, and deposits in the pooled investment fund administered by the State Treasurer, this classification includes short-term investments with original maturities of three months or less from the date of acquisition.

g. Investments

The agency has established guidelines for its funds to meet the requirements of the bond resolutions and to comply with the statutes of the State of Tennessee. Permitted investments include the following: direct obligations of the U.S. Treasury and U.S. Agencies; obligations guaranteed by the U.S.; public housing bonds secured by contracts with the U.S.; direct and general obligations of the State of Tennessee or obligations guaranteed by the State of Tennessee; obligations of other states or instrumentalities thereof which are rated in either of the two highest rating categories by Moody's Investor Service or Standard & Poor's Corporation; interest bearing time or demand deposits; collateralized certificates of deposit in authorized state depositories; and repurchase agreements collateralized by authorized securities.

Effective July 1, 1997, investments are stated at fair value. Prior to this date, investments were stated at cost or amortized cost.

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h. Accrual of Interest Income

Interest on first mortgage loans receivable and investment securities is credited to income as earned and classified as interest receivable.

i. Mortgages

Mortgages are carried at their original amount less principal collected.

NOTE 2. DEPOSITS AND INVESTMENTS

a. Deposits

The agency's deposits are in financial institutions which participate in the bank collateral pool administered by the State Treasurer. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

At June 30, 1999, the carrying amount of the agency's deposits was \$22,218,445, and the bank balance was \$1,381,669. At June 30, 1998, the carrying amount of the agency's deposits was \$17,949,895, and the bank balance was \$1,416,591. All bank balances were insured. The carrying amount of cash on deposit in the State Treasurer's pooled investment fund was \$53,930,380 on June 30, 1999, and \$33,844,130 on June 30, 1998.

b. Investments

The agency's investments are categorized to indicate the level of custodial risk assumed by the agency at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the agency or its agent in the agency's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the agency's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the agency's name. Investments are categorized as follows:

June 30, 1999			
	Category		
	<u>1</u>	<u>2</u>	<u>3</u>
			Fair Value
Cash equivalents and short-term investments			
Repurchase agreements	\$ 156,275,000		\$ 156,275,000
U S government securities	173,962,521		173,962,521
State and local government securities	100,003		100,003
Total cash equivalents and short-term investments	\$ 330,337,524		\$ 330,337,524

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June 30, 1999 (cont.)				
	Category			Fair Value
	<u>1</u>	<u>2</u>	<u>3</u>	
Long-term investments				
U S government securities	\$ 431,138,123			\$ 431,138,123
State & local government securities	1,022,299			1,022,299
Total long-term investments	<u>\$ 432,160,422</u>			<u>\$ 432,160,422</u>
Total	<u>\$ 762,497,946</u>			<u>\$ 762,497,946</u>

June 30, 1998				
	Category			Fair Value
	<u>1</u>	<u>2</u>	<u>3</u>	
Cash equivalents and short-term investments				
Repurchase agreements	\$131,658,000			\$131,658,000
U S government securities	229,494,398			229,494,398
Total cash equivalents and short-term investments	<u>\$361,152,398</u>			<u>\$361,152,398</u>
Long-term investments				
U S government securities	\$447,722,287			\$447,722,287
State & local government securities	811,919			811,919
Total long-term investments	<u>\$448,534,206</u>			<u>\$448,534,206</u>
Total	<u>\$809,686,604</u>			<u>\$809,686,604</u>

NOTE 3. CHECKS PAYABLE

This amount represents the sum of checks written in excess of the agency's checking account balance because of the agency's use of a controlled disbursement account. Through the use of a controlled disbursement account, the agency maximizes interest income by transferring from an investment account only funds necessary to cover the checks that clear the bank daily.

NOTE 4. REVENUE BONDS AND NOTES PAYABLE

a. Bonds Issued and Outstanding

The following tables are a summary of bonds issued and outstanding as of June 30, 1999, and June 30, 1998.

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BONDS ISSUED							BONDS OUTSTANDING	
(Thousands)							(Thousands)	
SERIAL BONDS				TERM BONDS				
Series	Maturity	Amount	Interest Rate (Percent)	Maturity	Amount	Interest Rate (Percent)	06-30-99	06-30-98
<u>MORTGAGE FINANCE PROGRAM BONDS</u>								
1993A	1/1/99-7/1/2008	136,420	4.70 to 5.70	7/1/2010	15,365	5.80		
				7/1/2013	25,540	5.85		
				7/1/2018	28,815	5.90		
				7/1/2028	59,770	5.95	\$260,995	\$265,910
1994A	1/1/96-7/1/2009	14,760	4.4 to 6.35	1/1/2019	20,835	6.40		
				7/1/2025	24,405	6.90	47,085	52,750
1994B	1/1/96-7/1/2011	30,095	4.50 to 6.40	7/1/2014	10,015	6.45		
				7/1/2019	21,810	6.55		
				7/1/2025	38,080	6.60	83,305	90,270
1995A	1/1/97-7/1/2008	14,270	5.45 to 6.55	7/1/2010	3,735	6.65		
				7/1/2014	9,350	6.85		
				7/1/2020	20,485	7.05		
				7/1/2026	32,160	7.125	69,315	73,540
1995B				7/1/2015	3,135	6.15		
				7/1/2018	12,155	6.20	15,290	15,290
1995C	1/1/97-7/1/2009	22,990	4.8 to 5.95	7/1/2015	15,300	6.10		
				7/1/2021	14,685	6.45		
				7/1/2026	31,735	6.55	69,465	77,335
TOTAL MORTGAGE FINANCE PROGRAM BONDS		<u>\$218,535</u>			<u>\$387,375</u>		<u>\$545,455</u>	<u>\$575,095</u>
<u>HOMEOWNERSHIP PROGRAM BONDS</u>								
Issue G	7/1/89-7/1/2002	16,345	5.25 to 7.5	7/1/2006	8,500	7.65	\$ 4,470	\$ 7,440
Issue H				7/1/2015	33,000	7.825		
				7/1/2019	27,155	8.375	-0-	7,000
Issue J	7/1/92-7/1/2003	6,010	6.25 to 7.40	7/1/2008	4,555	7.625		
				7/1/2017	14,435	7.75	7,675	8,175
Issue K	7/1/92-7/1/2003	18,960	6.4 to 7.7	7/1/2021	52,755	8.125		
				7/1/2004 to 7/1/2008		7.90 to 8.10		
					3,060	8.10	12,890	14,470
						Interest accretion	3,996	3,464
Issue M				7/1/2017	28,740	7.125	25,585	25,585
Issue N	7/1/91-7/1/2008	29,000	6.7 to 7.5	7/1/2011	8,725	7.60		
				7/1/2020	19,275	7.65	29,260	47,605
Issue O	7/1/91-7/1/2005	21,580	6.4 to 7.5	7/1/2009	10,675	7.70		
				7/1/2020	51,745	7.75	12,760	61,555
Issue P	7/1/97-7/1/2010	17,540	6.85 to 7.50	7/1/2016	22,460	7.70	14,628	30,013
						Interest accretion	11,031	9,443
Issue S	7/1/92-7/1/2005	16,210	6.2 to 7.4	7/1/2010	10,985	7.50		
				7/1/2022	51,405	7.625	68,705	69,720
Issue T	7/1/92-7/1/2002	9,560	5 to 6.75	7/1/2011	15,875	7.30		
				7/1/2023	46,940	7.375	67,140	68,045
Issue U	7/1/00-7/1/2006	10,570	6.40 to 6.95	7/1/2011	11,460	7.35		
				7/1/2016	15,660	7.40	27,235	27,235
Issue V	7/1/92-7/1/99	7,725	5.30 to 6.55	7/1/2022	29,585	7.65	1,020	24,220
Issue WR	7/1/94-7/1/2007	15,020	4.25 to 6.45	7/1/2012	9,725	6.70		
				7/1/2017	25,155	6.80	43,300	44,210
Issue XR				7/1/2022	8,555	6.875	1,530	4,275
Issue Y1	1/1/95-7/1/2007	4,860	3.50 to 5.60	7/1/2013	3,660	5.80		
				7/1/2017	3,245	5.90	10,100	10,425
Issue Z1	1/1/95-7/1/2007	5,505	3.75 to 5.85	7/1/2013	3,535	6.00		
				7/1/2023	16,250	5.375		
				7/1/2024	12,945	6.10	25,860	29,625
Issue Y2	1/1/04-7/1/2007	1,520	5.00 to 5.20	7/1/2013	2,965	5.45		
				7/1/2017	2,575	5.55	6,890	6,890

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BONDS ISSUED							BONDS OUTSTANDING	
(Thousands)							(Thousands)	
SERIAL BONDS				TERM BONDS				
Series	Maturity	Amount	Interest Rate (Percent)	Maturity	Amount	Interest Rate (Percent)	06-30-99	06-30-98
HOMEOWNERSHIP PROGRAM BONDS (cont.)								
Issue Z2	1/1/95-7/1/2003	3,790	3.5 to 5.0	7/1/2023	12,000	5.00		
				7/1/2024	7,150	5.75	15,465	17,775
1994-1				1/1/98	9,500	5.20		
				1/1/1999	24,000	5.50	-0-	24,000
1995-1	1/1/97-7/1/2010	16,965	4.35 to 6.05	7/1/2016	13,060	6.35		
				7/1/2021	15,635	6.40		
				1/1/2026	19,340	6.48	27,735	28,495
1996-1A	7/1/97	290	4.00	7/1/98-7/1/2012	12,225	4.10 to 5.60		
				7/1/2015	4,210	5.70		
				7/1/2017	3,255	5.75		
				7/1/2022	10,090	5.80		
				1/1/2026	9,125	5.85	37,545	38,445
1996-1B	7/1/2010-1/1/2011	805	5.35 to 5.45				805	805
1996-2A	1/1/98-7/1/2014	20,310	4.40 to 6.15	7/1/2016	4,675	6.00		
				7/1/2022	18,360	6.35		
				1/1/2027	18,835	6.375	60,065	61,545
1996-2B	7/1/2009-1/1/2011	2,820	5.70 to 5.80				2,820	2,820
1996-3	7/1/99-7/1/2012	16,490	4.30 to 5.65	7/1/2017	10,670	5.85		
				7/1/2023	18,540	5.85		
				1/1/2028	19,300	6.00	42,750	65,000
1996-4 A	7/1/98-7/1/2011	13,535	4.35 to 6.00	7/1/2016	8,975	6.05		
				7/1/2022	15,485	6.375		
				1/1/2027	16,400	6.45	53,455	54,315
1996-4 B	1/1/2011	605	5.85				605	605
1996-5A	7/1/99-7/1/2012	8,180	4.00 to 5.35	7/1/2017	4,825	5.50		
				7/1/2023	7,935	5.55		
				7/1/2028	9,060	5.75	30,000	30,000
1996-5B				8/20/98	30,000	3.85	-0-	30,000
1996-5B	7/1/99- 7/1/2012	8,880	3.85 to 5.05	7/1/2017	4,835	5.00		
				7/1/2023	7,700	5.375		
				7/1/2028	8,585	5.40	30,000	-0-
1997-1	7/1/99-7/1/2012	16,385	4.00 to 5.10	7/1/2017	9,695	5.00		
				7/1/2023	15,845	5.375		
				1/1/2028	15,960	5.40	57,885	57,885
1997-2				3/4/99	50,000	3.70	-0-	50,000
1997-2	7/1/2000- 7/1/2013	15,040	3.20 to 4.75	01/01/2018	7,495	5.10		
				01/01/2024	13,040	5.15		
				01/01/2029	14,425	5.20	50,000	-0-
1997-3A	1/1/98-7/1/2008	40,911	4.00 to 5.35	7/1/2012	23,174	5.125		
				7/1/2017	1,133	5.875		
				7/1/2017	2,746	5.875	58,413	67,865
					Interest accretion		5,370	2,553
1997-3B				7/1/2016	20,044	5.725	20,044	20,044
					Interest accretion		2,056	843
1998-1				6/17/99	50,000	3.75	-0-	50,000
1998-1	7/1/2001-7/1/2014	14,800	3.95 to 5.20	1/1/2019	7,500	5.25		
				1/1/2024	10,655	5.30		
				1/1/2030	17,045	5.40	50,000	-0-
1998-2	7/1/2000- 7/1/2012	7,850	4.00 to 5.05	7/1/2017	4,620	5.10		
				7/1/2023	7,385	5.35		
				7/1/2029	10,145	5.375	30,000	-0-
1998-3A	7/1/2000- 7/1/2001	700	3.70 to 3.90	1/1/2024	11,135	5.25		
				1/1/2030	13,365	5.30	25,200	-0-
1998-3B	7/1/2001- 7/1/2012	9,475	3.80 to 4.80	1/1/2017	5,325	5.00	14,800	-0-
1998-3C				11/18/99	40,000	3.10	40,000	-0-

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(Thousands)						(Thousands)		
SERIAL BONDS			TERM BONDS					
Series	Maturity	Amount	Interest Rate (Percent)	Maturity	Amount	Interest Rate (Percent)	06-30-99	06-30-98
HOMEOWNERSHIP PROGRAM BONDS (cont.)								
1999-1A	7/1/2001 – 7/1/2014	11,090	3.95 to 5.20	1/1/2019	5,615	5.25		
				1/1/2024	7,980	5.30		
				1/1/2031	15,315	5.40	40,000	-0-
1999-1B				6/15/2000	35,000	3.25	35,000	-0-
TOTAL HOMEOWNERSHIP PROGRAM BONDS		<u>\$389,326</u>			<u>\$1,314,012</u>		<u>\$1,104,088</u>	<u>\$1,102,390</u>
TOTAL ALL ISSUES		<u>\$607,861</u>			<u>\$1,701,387</u>		<u>\$1,649,543</u>	<u>\$1,677,485</u>

b. Debt Service Requirements

Debt service requirements to maturity at June 30, 1999 are as follows (expressed in thousands):

For the Year(s) Ending			Total
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Requirements</u>
2000	\$ 112,245	\$ 88,691	\$ 200,936
2001	37,335	86,963	124,298
2002	40,790	85,128	125,918
2003	43,763	83,087	126,850
2004	44,910	80,901	125,811
2005 - 2031	<u>1,338,604</u>	<u>1,064,985</u>	<u>2,403,589</u>
Total	<u>\$1,617,647</u>	<u>\$1,489,755</u>	<u>\$ 3,107,402</u>

The debt principal in the preceding table is \$22.4 million less than that presented in the accompanying financial statements. This amount, representing the accretion to date of interest on deep discount bonds in those years preceding the first principal payment on these bonds, has been reported as bond principal in the financial statements; it has been reported here as interest in those years (2000-2017) in which the bonds mature.

c. Redemption of Bonds

During the year ended June 30, 1999, bonds were retired at par before maturity in the Mortgage Finance Program Bonds in the amount of \$4,220,000 and in the Homeownership Program Bonds in the amount of \$75,696,673. The respective carrying values of these bonds were \$4,181,124 and \$75,036,083. This resulted in a loss to the Mortgage Finance Program of \$38,876 and the Homeownership Program of \$660,590.

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On July 1, 1998, the agency drew down \$17,245,000 of the convertible notes, 1997 CN-1, to refund certain bonds previously issued in the Homeownership Program. The carrying amount of these bonds was \$17,081,062. The refunding resulted in a difference of \$163,938 between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2022. Also on this date, the agency used \$40,930,000 of the proceeds from the Homeownership Program Bond Issue 1998-1 to refund certain bonds previously issued in the Mortgage Finance Program and the Homeownership Program. The carrying amount of these bonds was \$40,602,716. The refunding resulted in a difference of \$327,284 between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2026.

On August 1, 1998, the agency issued \$30,000,000 in Homeownership Program Bonds, Issue 1998-2, of which \$27,150,000 was used to refund certain bonds previously issued in the Homeownership Program on October 30, 1998. The carrying amount of those bonds was \$26,897,268. The refunding resulted in a difference of \$252,732 between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2027. The agency completed the refunding to reduce its total debt service over the next 31 years by \$3,894,097 and realized an economic gain (the difference between the present value of the old and new debt service payments) of \$4,097,864.

On December 2, 1998, the agency issued \$80,000,000 in Homeownership Program Bonds, Issues 1998-3A, B, and C. The proceeds of these bonds were used to refund previously issued bonds and notes as follows: (1) \$46,265,000 was used to refund the first draw of the Convertible Notes, 1997 CN-1, which refunded certain bonds previously issued in the Mortgage Finance and Homeownership Programs on January 1, 1998. The carrying amount of those bonds was \$45,863,992. (2) \$10,240,000 was used to refund the second draw of 1997 CN-1, which refunded certain bonds previously issued in the Homeownership Program on July 1, 1998. The carrying amount of those bonds was \$10,142,654. (3) \$6,380,000 was used to refund certain bonds previously issued in the Mortgage Finance and Homeownership Programs on January 1, 1999. The carrying amount of those bonds was \$6,340,543. The refunding resulted in a difference of \$39,457 between the reacquisition price and the net carrying amount of the old debt. The difference between the reacquisition price and the net carrying amount of the bonds refunded in (1) and (2) above and the disposition thereof was documented at the time the bonds were originally refunded. The difference between the reacquisition price and the net carrying amount of the bonds refunded in (3) above, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2026. A portion of this refunding was accomplished using proceeds of short-term debt, which will in turn be refunded or remarketed upon maturity; therefore, the full economic impact of the refunding was not determined as of June 30, 1999.

On March 4, 1999, the agency remarketed \$50,000,000 in Homeownership Program Bonds, Issue 1997-2, of which \$29,725,000 was used to refund certain bonds previously issued in the Homeownership Program. The agency completed the refunding to reduce its total debt service over the next 30 years by \$12,161,239 and realized an economic gain (the difference between the present value of the old and new debt service payments) of \$7,484,437.

On April 13, 1999, the agency issued \$200,000,000 of drawdown notes, 1999CN-1, of which \$65,235,000 was drawn down to refund certain bonds previously issued in the Mortgage Finance Program and the Homeownership Program on July 1, 1999 (this amount consists of \$63,004,030.15 early redemption and \$2,230,969.85 current maturities). This refunding will be accomplished using proceeds of short-term debt, which will in turn be refunded upon maturity; therefore the full economic impact of the refunding was not determined as of June 30, 1999.

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On June 17, 1999, the agency remarketed \$50,000,000 in Homeownership Program Bonds, Issue 1998-1, of which \$40,930,000 was used to refund certain bonds previously issued in the Mortgage Finance Program and the Homeownership Program. The agency completed the refunding to reduce its total debt service over the next 31 years by \$4,800,345 and realized an economic gain (the difference between the present value of the old and new debt service payments) of \$7,790,649.

On June 17, 1999, the agency issued \$40,000,000 and \$35,000,000 in Homeownership Program Bonds, Issues 1999-1A and 1999-1B, respectively. \$30,570,000 of the 1999-1A proceeds will be used to refund certain bonds and notes previously issued in the Homeownership Program and the 1999CN-1 Single Family Mortgage Note Program. \$29,635,000 of the 1999-1B proceeds will be used to refund certain bonds and notes previously issued in the Homeownership Program and the 1999CN-1 Single Family Mortgage Note Program.

During the year ended June 30, 1998, bonds were retired at par before maturity in the Mortgage Finance Program Bonds in the amount of \$485,000 and in the Homeownership Program Bonds in the amount of \$14,225,000. The respective carrying values of these bonds were \$480,283 and \$14,110,078. This resulted in a loss to the Mortgage Finance Program of \$4,717 and the Homeownership Program of \$114,922.

On May 29, 1997, the agency issued \$50,000,000 in Homeownership Program Bonds, Issue 1997-2, \$29,725,000 of which was used to refund certain bonds previously issued in the Mortgage Finance Program and Homeownership Program on July 1, 1997 (this amount consists of \$27,240,000 early redemption and \$2,485,000 current maturities). The carrying amount of these bonds was \$29,515,777. The refunding resulted in a difference of \$209,223 between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2027. This refunding was accomplished using proceeds of short-term bonds, which will in turn be refunded upon maturity; therefore, the full economic impact of these refundings was not determined as of June 30, 1998.

On October 9, 1997, the agency issued \$88,008,335 in Homeownership Program Bonds, Issue 1997-3, which was used to refund certain bonds previously issued in the Homeownership Program on December 1, 1997. The carrying amount of those bonds was \$86,887,469. A call premium of \$1,880,950 was paid on the redemption of these bonds. The refunding resulted in a difference of \$3,003,481 between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2018. The agency completed the refunding to reduce its total debt service over the next 18 years by \$2,377,996 and realized an economic gain (the difference between the present value of the old and new debt service payments) of \$17,539,742.

On December 1, 1997, the agency issued \$65,000,000 of drawdown notes, 1997CN-1, of which \$47,755,000 was drawn down to refund certain bonds previously issued in the Mortgage Finance Program and the Homeownership Program on January 1, 1998 (this amount consists of \$45,535,000 early redemption and \$2,220,000 current maturities). The carrying amount of these bonds was \$47,341,077. The refunding resulted in a difference of \$413,923 between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2026. The refunding was accomplished using proceeds of short-term debt, which will in turn be refunded upon maturity; therefore, the full economic impact of these refundings was not determined as of June 30, 1998.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 1999, AND JUNE 30, 1998

On February 19, 1998, the agency remarketed \$57,885,000 in Homeownership Program Bonds, Issue 1997-1, which was used to refund certain bonds previously issued in the Homeownership Program. The agency completed the refunding to reduce its total debt service over the next 30 years by \$24,769,152 and realized an economic gain (the difference between the present value of the old and new debt service payments) of \$19,498,872.

On June 4, 1998, the agency issued \$50,000,000 in Homeownership Program Bonds, Issue 1998-1, of which \$40,930,000 was used for refunding certain bonds previously issued in the Mortgage Finance Program and the Homeownership Program on July 1, 1998 (this amount consists of \$37,395,000 early redemption and \$3,535,000 current maturities). This refunding will be accomplished using proceeds of short-term bonds, which will in turn be refunded upon maturity; therefore, the full economic impact of these refundings was not determined as of June 30, 1998.

Details of the bond retirements by issue are as follows:

Year Ended June 30, 1999						
Date of Call	Issue	Par Value	Carrying Amount	(Loss)	Deferred Amount	Source of Funds
MORTGAGE FINANCE PROGRAM BONDS						
07/01/98	94A	\$ 1,855,000	\$ 1,845,291		(\$ 9,709)	Current Refunding
07/01/98	94B	2,555,000	2,534,836		(20,164)	Current Refunding
07/01/98	95A	3,330,000	3,296,550		(33,450)	Current Refunding
07/01/98	95 C	2,305,000	2,283,155		(21,845)	Current Refunding
07/01/98	95C	110,000	108,958	(\$ 1,042)		Prepayments
01/01/99	94A	3,000,000	2,984,740		(15,260)	Current Refunding
01/01/99	94B	3,025,000	3,001,839		(23,161)	Current Refunding
01/01/99	95C	4,110,000	4,072,166	(37,834)		Prepayments
	Sub-Total-	\$ 20,290,000	\$ 20,127,535	(\$ 38,876)	(\$ 123,589)	
HOMEOWNERSHIP PROGRAM BONDS						
07/01/98	86G	\$ 355,000	\$ 351,820		(\$ 3,180)	Current Refunding
07/01/98	86H	1,300,000	1,288,354		(11,646)	Current Refunding
07/01/98	89O	31,265,000	30,987,758		(277,242)	Current Refunding
07/01/98	89O	4,090,000	4,053,732	(\$36,268)		Prepayments
07/01/98	91V	9,600,000	9,503,854		(96,146)	Current Refunding
07/01/98	91V	325,000	321,745	(3,255)		Prepayments
07/01/98	91XR	685,000	677,417	(7,583)		Prepayments
07/01/98	92Z1	1,360,000	1,348,296		(11,704)	Current Refunding
07/01/98	92Z2	715,000	708,864		(6,136)	Current Refunding
10/30/98	89O	4,900,000	4,858,528		(41,472)	Current Refunding
10/30/98	96-3	22,250,000	22,038,740		(211,260)	Current Refunding
10/30/98	97-3	3,737,396	3,708,316	(29,080)		Prepayments
01/01/99	86G	1,555,000	1,541,918	(13,082)		Prepayments
01/01/99	86H	5,700,000	5,652,045	(47,955)		Prepayments
01/01/99	89N	645,000	637,638	(7,362)		Prepayments
01/01/99	89O	915,000	907,476	(7,524)		Prepayments
01/01/99	90P	2,960,000	2,941,746	(18,254)		Prepayments
01/01/99	91V	1,130,000	1,119,053	(10,947)		Prepayments
01/01/99	91XR	2,060,000	2,038,026	(21,974)		Prepayments
01/01/99	92Z1	1,910,000	1,893,876	(16,124)		Prepayments
01/01/99	92Z2	1,065,000	1,056,019	(8,981)		Prepayments
01/01/99	95-1	355,000	353,964		(1,036)	Current Refunding
01/01/99	96-1A	295,000	293,007	(1,993)		Prepayments
01/01/99	96-2A	620,000	615,182	(4,818)		Prepayments
01/01/99	96-4A	130,000	128,685	(1,315)		Prepayments
01/01/99	97-3A	4,309,277	4,275,986	(33,291)		Prepayments
06/01/99	89N	16,360,000	16,179,032	(180,968)		Prepayments
06/01/99	89O	6,255,000	6,207,443	(47,557)		Prepayments
06/01/99	90P	9,755,000	9,697,730	(57,270)		Prepayments

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 1999, AND JUNE 30, 1998

Year Ended June 30, 1999 (cont.)

Date of Call	Issue	Par Value	Carrying Amount	(Loss)	Deferred Amount	Source of Funds
HOMEOWNERSHIP PROGRAM BONDS (cont.)						
06/01/99	91V	11,195,000	11,090,011	(104,989)		Prepayments
	Sub-Total	\$147,796,673	\$146,476,261	(\$660,590)	(\$659,822)	
	Total	\$168,086,673	\$166,603,796	(\$699,466)	(\$783,411)	

Year Ended June 30, 1998

Date of Call	Issue	Par Value	Carrying Amount	Call Premium	(Loss)	Deferred Amount	Source of Funds
MORTGAGE FINANCE PROGRAM BONDS							
07/01/97	94A	\$1,010,000	\$1,004,492			(\$ 5,508)	Current Refunding
07/01/97	94B	4,000,000	3,967,053			(32,947)	Current Refunding
07/01/97	95A	2,000,000	1,979,053			(20,947)	Current Refunding
07/01/97	95C	2,295,000	2,272,333			(22,667)	Current Refunding
07/01/97	95C	115,000	113,864		(\$ 1,136)		Prepayment
01/01/98	94A	2,590,000	2,576,163			(13,837)	Current Refunding
01/01/98	94B	3,160,000	3,134,516			(25,484)	Current Refunding
01/01/98	95A	3,215,000	3,182,014			(32,986)	Current Refunding
01/01/98	95C	2,690,000	2,663,968			(26,032)	Current Refunding
01/01/98	95C	370,000	366,419		(\$3,581)		Prepayments
	Sub-Total	\$21,445,000	\$21,259,875	\$-0-	(\$4,717)	(\$180,408)	
HOMEOWNERSHIP PROGRAM BONDS							
07/01/97	86F	\$ 840,000	\$ 832,048			(\$ 7,952)	Current Refunding
07/01/97	86G	370,000	366,554			(3,446)	Current Refunding
07/01/97	86H	1,000,000	990,686			(9,314)	Current Refunding
07/01/97	87I	930,000	921,961			(8,039)	Current Refunding
07/01/97	90Q	12,965,000	12,880,691			(84,309)	Current Refunding
07/01/97	90Q	645,000	640,806		(\$4,194)		Prepayments
07/01/97	91XR	330,000	326,155		(3,845)		Prepayments
07/01/97	92Z1	635,000	629,322			(5,678)	Current Refunding
07/01/97	92Z2	420,000	416,261			(3,739)	Current Refunding
07/01/97	95-1	330,000	328,975			(1,025)	Current Refunding
07/01/97	96-1	165,000	163,814			(1,186)	Current Refunding
07/01/97	96-2	220,000	218,183			(1,817)	Current Refunding
07/01/97	96-4	60,000	59,351			(649)	Current Refunding
12/01/97	86C	20,045,000	19,705,956	\$ 400,900		(739,944)	Current Refunding
12/01/97	86D	43,725,000	43,162,422	1,311,750		(1,874,328)	Current Refunding
12/01/97	86F	24,240,000	24,019,091	168,300		(389,209)	Current Refunding
12/01/97	90Q	6,000,000	5,962,232		(37,768)		Prepayments
01/01/98	86G	365,000	361,773			(3,227)	Current Refunding
01/01/98	86H	1,300,000	1,288,505			(11,495)	Current Refunding
01/01/98	88J	14,435,000	14,290,846			(144,154)	Current Refunding
01/01/98	89N	1,035,000	1,022,542		(12,458)		Prepayments
01/01/98	89O	14,990,000	14,855,086			(134,914)	Current Refunding
01/01/98	90Q	1,050,000	1,043,441			(6,559)	Current Refunding
01/01/98	90Q	2,240,000	2,226,008		(13,992)		Prepayments
01/01/98	91V	1,890,000	1,870,803		(19,197)		Prepayments
01/01/98	91XR	2,065,000	2,041,743		(23,257)		Prepayments
01/01/98	92Z1	895,000	887,148			(7,852)	Current Refunding
01/01/98	92Z2	845,000	837,617			(7,383)	Current Refunding
01/01/98	96-4	20,000	19,789		(211)		Prepayments
	Sub-Total	\$154,050,000	\$152,369,809	\$1,880,950	(\$114,922)	(\$3,446,219)	
	Total	\$175,495,000	\$173,629,684	\$1,880,950	(\$119,639)	(\$3,626,627)	

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 1999, AND JUNE 30, 1998

Under the bond resolutions, the agency has the option to redeem bonds at an initial price of 103 percent and subsequently at prices declining to par. Generally, the redemption option cannot be exercised prior to the time the bonds have been outstanding for ten years. Certain special redemption options, as governed by the bond resolutions, are permitted prior to that time.

The bonds are secured, as described in the applicable bond resolutions, by the revenues, monies, investments, mortgage loans and other assets in the funds and accounts established by the resolutions.

d. Notes Issued and Outstanding

The Single Family Mortgage Notes Trust Indenture, dated December 1, 1997 (the "Trust Indenture"), provides for the issuance of Agency drawdown notes with a maximum aggregate principal amount of \$65,000,000. On April 1, 1999 the Trust Indenture was supplemented providing for the maximum aggregate principal amount to be \$200,000,000.

The Series 1999CN-1 Notes (the "Notes"), dated April 13, 1999 are in the stated principal amount of \$200,000,000; however, the initial principal amount drawn down was \$65,235,000. The Notes bear interest, payable on the second Thursday of each succeeding month with respect to the principal amount drawn down by the agency. The interest rate is equal to ninety percent (90%) of the bond equivalent yield as determined on the related rate date.

The Series 1997CN-1 Notes (the "Notes"), dated December 1, 1997, are in the stated principal amount of \$65,000,000; however, the initial principal amount drawn down was \$47,755,000. The Notes bear interest, payable on the first Thursday of each succeeding month with respect to the principal amount drawn by the agency. The interest rate is equal to ninety percent (90%) of the bond equivalent yield as determined on the related rate date.

The following table is a summary of notes issued and outstanding as of June 30, 1999, and June 30, 1998.

NOTES ISSUED			NOTES OUTSTANDING		
(Thousands)			(Thousands)		
<u>Series</u>	<u>Maturity</u>	<u>Stated Principal</u>	<u>Interest Rate (Percent)</u>	<u>06/30/99</u>	<u>06/30/98</u>
<u>SINGLE FAMILY MORTGAGE NOTES</u>					
1997CN-1	12/3/98	\$65,000	4.397	\$ -0-	\$47,755
1999CN-1	4/13/2000	\$200,000	4.369	\$65,235	-0-
		<u>\$265,000</u>		<u>\$65,235</u>	<u>\$47,755</u>

NOTE 5. EQUITY

Retained earnings reserved for the Mortgage Finance Program Bonds represent the equity that is unavailable for transfer to the operating group from the other funds established under the 1974 Bond Resolution.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 1999, AND JUNE 30, 1998

The \$2,500,000 shown as contributed capital on the balance sheet is an appropriation by the State of Tennessee for the Homebuyers Revolving Loan Program, a pilot demonstration program to fund low interest mortgages. Earnings from the Homebuyers Revolving Loan Program are reserved for use in the Homebuyers Revolving Loan Program.

The Reserve for the HOUSE Program reflects legislation of the State of Tennessee, effective July 1, 1988, which established the Assets Fund, the Housing Program Fund, and the Housing Program Reserve Fund. This legislation restricts to specific uses all agency funds that are not necessary to support the bond and note obligations and which can be withdrawn from the specific funds of the various bond resolutions as provided under the resolutions. These uses include supporting the rental rehabilitation program, construction loans, grants to local governments and nonprofit organizations, and agency operating expenses.

Initially an amount of \$49,018,410 was transferred on the agency's accounting records to the Assets Fund from the General Fund of the Mortgage Finance Program Group. In addition to the monies provided by the agency, TCA Section 13-23-402 allocates a portion of the real estate transfer taxes and the mortgage taxes levied by the State to the Housing Program Fund.

On May 31, 1997, the General Assembly adopted House Bill 1804/Senate Bill 1943 and on June 19, 1997, the Governor signed the bill into law as Chapter 537 of the Public Acts of 1997 (the "Amendments"). The Amendments modify the Tennessee Housing Development Agency Act by authorizing a transfer of up to \$88,000,000 from the Agency to the State of Tennessee General Fund, at June 30, 1998. Further, the Amendments provide for replenishing the Agency's Assets Fund, beginning July 1, 1998, from all tax revenues received by the Agency in excess of \$10,000,000 each fiscal year until the balance of the Assets Fund once again reaches \$50,000,000.

In addition to the Amendments, the General Assembly adopted and the Governor signed into law the general appropriation act for the State of Tennessee for the year ending June 30, 1998, as Chapter 552 of the Public Acts of 1997 (the "Appropriations Act"). On December 9, 1997, it was determined that \$45,000,000 would be restored to the Agency under the provisions of the Appropriations Act. Thus the total transfer from the Agency to the State of Tennessee General Fund on June 30, 1998, was \$43,000,000. Public Chapter 411, enacted in connection with the adoption of the budget for the State of Tennessee for fiscal year 1999 – 2000, amends the Appropriations Act to redirect, to the State General Fund for one year beginning July 1, 1999, all tax revenues previously directed by the act to the agency.

NOTE 6. DEFINED BENEFIT PENSION PLAN

The agency contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement, death, and disability benefits as well as annual cost-of-living adjustments to plan members and their beneficiaries. Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes benefit provisions. State statutes are amended by the Tennessee General Assembly.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee, 37243-0230 or by calling (615) 741-8202.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 1999, AND JUNE 30, 1998

Plan members are noncontributory. The agency is required to contribute at an actuarially determined rate. The current rate is 5.43% of annual covered payroll. Contribution requirements for the agency are established and may be amended by the TCRS' Board of Trustees. The agency's contributions to TCRS for the years ended June 30, 1999, 1998, and 1997 were \$255,198, \$144,649, and \$276,668. Those contributions met the required contributions for each year.

NOTE 7. PROVISIONS FOR MORTGAGE LOAN LOSSES

Most mortgage loans are insured by Federal Housing Administration (FHA) or an approved private mortgage insurance company, or are guaranteed by the Department of Veterans Affairs. The agency's Board of Directors has designated \$750,000 of unreserved retained earnings as a provision for possible loan losses arising from participation in the Rural Economic and Community Development (RECD) Loan Guarantee Program. An additional \$232,000 was designated to provide for losses on loans not specifically covered under one of the above programs, and \$500,000 has been designated for self-insurance of second mortgages.

NOTE 8. RISK MANAGEMENT

a. Commercial Insurance

The agency carries commercial insurance for risks of loss related to employee dishonesty; general liability protection; and theft of, damage to, or destruction of real and personal property. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

b. Claims Award Fund

The state has set aside assets for claim settlement in an internal service fund, the Claims Award Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. The agency participates in the Claims Award Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on a percentage of the agency's expected loss costs which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of each fiscal year-end to determine the fund liability and premium allocation. Since the agency participates in the Claims Award Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the agency for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Claims Award Fund.

c. Employee Group Insurance Fund

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The agency participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on estimates of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 1999, AND JUNE 30, 1998

NOTE 9. OTHER POST-EMPLOYMENT BENEFITS

The State of Tennessee provides and administers a group health insurance program which provides post-employment health insurance benefits to eligible agency retirees. The agency assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report*.

NOTE 10. ACCOUNTING CHANGE

During the year ended June 30, 1998, the agency implemented GASB Statement 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," which requires reporting certain investments with a remaining maturity of more than one year at the time of purchase at fair value. Changes in the fair value of investments (unrealized gains and losses) are recognized as revenue in the operating statement and are not separated from realized gains and losses. The cumulative effect of this change in accounting principle is reported in the accompanying financial statements as a restatement of the beginning retained earnings. It was not practical to restate prior periods since not all information necessary to conform to this accounting change was available.

NOTE 11. SUBSEQUENT EVENTS

- a. Mortgage prepayments, foreclosure proceeds, and bond proceeds were used to call bonds and notes as indicated below:

July 1, 1999	74 Resolution	\$20,505,000
	85 Resolution	<u>\$66,056,799</u>
	Total	<u>\$86,561,799</u>
August 12, 1999	1999 CN-1	<u>\$27,225,000</u>
September 1, 1999	74 Resolution	<u>\$ 3,845,000</u>
September 9, 1999	1999 CN-1	<u>\$38,010,000</u>
September 10, 1999	85 Resolution	<u>\$14,420,000</u>

- b. Homeownership Program Bonds, Issue 1998-3C, were remarketed October 20, 1999. The bond maturities are as follows:

BONDS ISSUED (Thousands)						
SERIAL BONDS				TERM BONDS		
Series	Maturity	Amount	Interest Rate (Percent)	Maturity	Amount	Interest Rate (Percent)
1998-3C	7/1/2001 – 7/1/2013	\$9,325	4.30 to 5.50	1/1/2020	\$ 8,000	6.00
				1/1/2025	8,545	6.125
				1/1/2031	14,130	6.15
TOTAL		<u>\$9,325</u>			<u>\$30,675</u>	

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 1999, AND JUNE 30, 1998

- c. Homeownership Program Bonds, Issues 1999-2 and 1999-3, were sold July 29, 1999 and October 20, 1999, respectively. The bond maturities are as follows:

BONDS ISSUED (Thousands)						
SERIAL BONDS				TERM BONDS		
<u>Series</u>	<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate (Percent)</u>	<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate (Percent)</u>
1999-2AB	7/1/2001 - 7/1/2014	\$25,500	4.25 to 5.45	7/1/2018	\$ 11,625	5.60
				7/1/2020	7,670	5.50
				7/1/2025	20,985	5.65
				7/1/2031	34,220	5.70
1999-2C				8/15/2000	50,000	3.57
1999-3	7/1/2001 - 7/1/2013	25,630	4.30 to 5.50	1/1/2020	22,025	6.00
				1/1/2025	23,495	6.125
				1/1/2031	38,850	6.15
TOTAL		<u>\$51,130</u>			<u>\$208,870</u>	

NOTE 12. EVENTS (UNAUDITED) SUBSEQUENT TO THE DATE OF INDEPENDENT AUDITOR'S REPORT

- a. Mortgage prepayments, foreclosure proceeds, and bond proceeds were used to call bonds as indicated below:

January 1, 2000	74 Resolution	\$ 9,820,000
	85 Resolution	<u>\$37,175,152</u>
	Total	<u>\$46,995,152</u>